

A meeting of the Executive Committee of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, September 25, 1935, at 2:30 p. m.

PRESENT: Mr. Thomas, Vice Chairman
Mr. Hamlin
Mr. James

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

The Committee acted upon the following matters:

Letter to Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"In accordance with the request contained in your letter of September 18, 1935, the Board of Governors of the Federal Reserve System approves the expenditure authorized by the board of directors of your bank in connection with the reimbursement of any member bank represented at the forthcoming meeting of stockholders of your bank to be held in Boston for the amount expended by not more than one representative of such bank for railroad fare and Pullman accommodation in attending the meeting."

Approved unanimously.

Letter to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Receipt is acknowledged of your letter of September 16, 1935, with inclosures, recommending that the Board approve the proposed retirement by the 'State Bank of Aurora', Aurora, Minnesota, of its capital debentures of \$20,000 which are held by the Reconstruction Finance Corporation.

"The bank was admitted to membership on April 3, 1934, subject to the following condition, among others:

- '18. Prior to admission to membership, such bank shall increase the aggregate amount of its capital accounts to not less than \$50,000, of which not more than \$20,000 may be capital debentures subordinate to the claims of depositors and other creditors, and of which not less than \$5000 shall be surplus.'

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"It has been noted that in your opinion the provisions of condition numbered 18 are such as to require the Board's approval for any reduction in the bank's capital debentures, and you have accordingly submitted the application to the Board for its consideration.

"On the basis of the examination made in connection with its application for membership, the bank's net sound capital was not considered adequate in relation to total deposits, and the condition of membership quoted above was prescribed in order to correct the apparent deficiency then existing. As you know, the bank is subject also to standard condition of membership numbered 9, which provides that the bank's capital shall not be reduced without the Board's approval, and to standard condition numbered 15, under the provisions of which the bank is required to maintain an amount of capital and surplus which, in the judgment of the Board, will be adequate in relation to deposits. In prescribing condition numbered 18, the Board did not contemplate, therefore, that its provisions were to be continuing in effect, thereby necessitating the maintenance by the bank of capital accounts in the aggregate amount of not less than \$50,000 regardless of the amount or trend of its deposits, and consequently requiring by the terms of the condition itself the Board's approval for a reduction below such amount.

"Approval by the Board of the retirement of the bank's capital debentures is, of course, required under the provisions of condition of membership numbered 9, and, in accordance with the authorization granted in the Board's letter of December 15, 1934 (X-9043), it is requested that you take formal action on behalf of the Board on the bank's application for the retirement of its capital debentures, advising the Board for its records of the action taken."

Approved unanimously.

Telegram to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, authorizing him to issue a limited voting permit to the "Northwest Bancorporation", Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls of the "First National Bank in Garrison", Garrison, North Dakota, at any time prior to December 1, 1935, to act upon a proposal providing for the assumption of the liabilities of the First National

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Bank in Garrison by, and the transfer of the assets of such bank to, the Garrison State Bank, Garrison, North Dakota, and to take such further action as is necessary to effect such assumption of liabilities and transfer of assets, provided that all action taken shall be in accordance with a plan satisfactory to the Comptroller of the Currency. The telegram stated that, while, in the circumstances, it is not clear that the voting permit authorized is necessary under the provisions of section 5144 of the Revised Statutes, as amended by section 311 of the Banking Act of 1935, it has been authorized in order to remove any possible doubts concerning the matter, and that clearly a voting permit to vote to place the bank in voluntary liquidation is not necessary.

Approved unanimously.

Letter to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of September 17, 1935, relating to section 301 of the Banking Act of 1935 and to the Board's telegram of September 16, 1935 (Trans. 2305) outlining the procedure to be followed in those cases in which a determination by the Board pursuant to such section is desired.

"The Board is of the opinion that section 301 of the Banking Act of 1935 does not affect the holding company affiliate status of an organization until the Board determines that such organization is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. That section does not exclude from the definition of the term 'holding company affiliate' (for all purposes other than section 23A of the Federal Reserve Act) all organizations which are not engaged, directly or indirectly, as a business in holding the stock of banks, banking associations, savings banks, or trust companies. Instead, it excludes such

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"organizations as the Board shall determine not to be so engaged and it appears clear that there must be a determination by the Board with reference to each such organization.

"Accordingly, the procedure outlined in the above-mentioned telegram should be followed in any case in which a holding company affiliate desires to take advantage of the provisions of section 301 of the Banking Act of 1935 and does not have a voting permit application pending before the Board. The information accompanying a request for a determination by the Board should include the following items in addition to any other facts which you or the holding company affiliates may deem pertinent:

(1) A statement showing the purpose for which the holding company affiliate was organized and the nature and purpose of its present activities.

(2) A current financial statement of the holding company affiliate showing the nature and value of the various classes of assets owned by it.

(3) A statement giving the name and address of each subsidiary of, or other organization affiliated with, the holding company affiliate and showing the nature of the relationship and the character of the business or other activities of each such organization.

(4) A detailed list of all bank stocks owned or controlled, directly or indirectly, by the holding company affiliate, showing the number and value of the shares owned or controlled of each bank, the total number of outstanding shares of each bank, and the manner in and purpose for which such stock, or control thereof, was acquired and is held.

"Of course, a request for determination should not be forwarded to the Board unless, in the opinion of your counsel, the organization involved is a holding company affiliate under the provisions of section 2(c)(1) or 2(c)(2) of the Banking Act of 1933 or would be such upon the admission of a bank which has filed, or contemplates filing, an application for membership in the Federal Reserve System. Moreover, it is trusted that you will be able to dispose of any cases in which it is obvious to you and your counsel that the organizations involved are engaged, directly or indirectly, in holding stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies."

Approved unanimously.

Letter to Mrs. Hilda B. Seely, Brookmont, Maryland, reading as follows:

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"This refers to your letter dated September 18, 1935 in which you ask to be advised whether there is any law which forbids a member bank of the Federal Reserve System to pay the amount on deposit in a Christmas Savings Club account before December 1, 1935, which it is assumed is the maturity date of your account.

"Since you have not furnished to the Board sufficient information in regard to the nature and terms of the contract under which the deposits were made, and since you have not submitted copies of the written instruments, if any, used in connection with the account, the Board cannot undertake to express a definite opinion upon the question which you have presented.

"In many Christmas Savings Club accounts, deposits are made in the form of weekly payments for a period of 50 weeks under a contract providing that the funds so deposited may not be withdrawn, transferred, or assigned during such 50 weeks payment period. If your Christmas Savings Club account is governed by this type of contract and if the bank's regulations do not require that the pass book or other form of receipt, evidencing such deposit, be presented to the bank whenever a withdrawal is made, it would appear that such account would constitute a time deposit which, under the law, may not be paid before its maturity.

"Prior to the recent enactment of the Banking Act of 1935, section 19 of the Federal Reserve Act provided that 'no member bank shall pay any time deposit before its maturity'. However, section 324(c) of the Banking Act of 1935 amended section 19 of the Federal Reserve Act so as to cause the above provision to read as follows:

'No member bank shall pay any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board, * * *.'

"The Board is now engaged in the formulation of a regulation upon this subject but until the issuance of such regulation member banks are forbidden to pay any time deposit before maturity."

Approved unanimously.

Letter to Governor Geery of the Federal Reserve Bank of Minneapolis, reading as follows:

"We have your letter of September 12 regarding the

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"reference in the last paragraph of the Board's letter, X-9248, of June 27, 1935, to insurance of Federal Reserve notes shipped to the National Bank Redemption Agency.

"It was not intended that the Board's letter should be interpreted as requiring the insurance of Federal Reserve notes shipped to the National Bank Redemption Agency as it was recognized that it has not been the practice to insure such notes and that ordinarily there is no need to do so. However, it was thought that there might be occasions when it would be desirable to insure particular shipments."

Approved unanimously.

Letter to Mr. Grant W. Anderson, Assistant Vice President of the Northwestern National Bank and Trust Company of Minneapolis, Minnesota, reading as follows:

"This refers to your letter of September 18, 1935, in which you inquire whether, in view of the amendments to section 22 of the Federal Reserve Act by the Banking Act of 1935, your bank may lawfully renew a note of an examiner of the Federal Deposit Insurance Corporation.

"The provisions of section 22(a) of the Federal Reserve Act, as amended by the Banking Act of 1935, prohibiting member banks and insured banks from making loans to any bank examiner or assistant examiner who examines or has authority to examine such banks, provide a penalty of fine or imprisonment for violations and the determination of whether a particular transaction is a violation is a matter entirely within the jurisdiction of the Department of Justice. The Board of Governors of the Federal Reserve System is not specifically authorized to prescribe regulations on this subject; and, in the circumstances, an expression of opinion by the Board that the renewal of a note, under the circumstances described in your letter, would not be a loan within the meaning of such provision would not afford protection from criminal prosecution if the Department of Justice should take the position that the transaction was within the statute and should feel it necessary to prosecute for violation of this provision. Accordingly, the Board does not feel that it would be appropriate to undertake to express an opinion upon a question of this kind."

Approved unanimously.

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Telegram to Mr. Sargent, Assistant Federal Reserve Agent
at the Federal Reserve Bank of San Francisco, reading as follows:

"Retel September 17, 1935. Assuming your first inquiry relates to an indebtedness of executive officer of member bank to liquidator or receiver of State or national bank arising out of a pre-existing indebtedness to bank it is the view of the Board that such indebtedness should be reported to the board of directors of the member bank of which he is an executive officer. However, indebtedness of an executive officer of member bank on account of assessment of statutory double liability on shares of stock held by him of another bank which has gone into liquidation or receivership is not indebtedness to another bank within meaning of section 22(g) and therefore is not required to be reported to the board of directors of the member bank of which he is an executive officer."

Approved unanimously.

Letter to Mr. Stevens, Federal Reserve Agent at the Federal
Reserve Bank of Chicago, reading as follows:

"Reference is made to Assistant Federal Reserve Agent Young's letter of August 20, 1935, and prior correspondence, relative to the Clayton Act status of Mr. David A. Hill who was reported by the office of the Comptroller of the Currency to be serving The First National Bank of Galena, Galena, Illinois, and The Merchants National Bank of Muncie and Merchants Trust and Savings Bank, both of Muncie, Indiana.

"The Board has given consideration to the question whether Mr. Hill should be considered an 'employee' of The Merchants National Bank of Muncie, Merchants Trust and Savings Bank and also Delaware County National Bank, Muncie, Indiana, which, it appears from Mr. Young's letter of August 20, 1935, Mr. Hill is also serving.

"It appears from the information submitted with Mr. Young's letter that Mr. Hill conducts an investment counselor service with offices in Chicago and that he furnishes investment advice to certain banks, including those named above, the fees which he receives from four banks totalling \$500 monthly. Mr. Young states that the service rendered by Mr. Hill appears to be of the same nature as that furnished

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"by Standard Statistics and the Moody service, and that whether the investment advice furnished by him is accepted is left entirely to the discretion of the respective banks.

"Apparently, therefore, Mr. Hill is exercising an independent discretion in giving these banks the benefit of his specialized knowledge regarding investments. Accordingly, in view of the information submitted, the Board sees no reason to differ with the conclusion reached by your office and concurred in by your counsel that Mr. Hill should not be regarded as an 'employee' of the Muncie, Indiana, banks within the meaning of the Clayton Act.

"Please advise the banks accordingly."

Approved unanimously.

There were then presented the following applications for changes in stock of Federal Reserve banks:

<u>Applications for ADDITIONAL Stock:</u>	<u>Shares</u>	
<u>District No. 7.</u>		
Marine National Exchange Bank of Milwaukee, Milwaukee, Wisconsin	15	15
<u>District No. 12.</u>		
The First National Bank of Holbrook, Holbrook, Arizona	2	
The Valley National Bank of Phoenix, Phoenix, Arizona	6	
Mechanics and Merchants National Bank of Vallejo, Vallejo, California	6	
The First National Bank of Malad City, Malad City, Idaho	3	
The Colville Valley National Bank of Colville, Colville, Washington	3	
The Buckeye Valley Bank, Buckeye, Arizona	1	
The First State Bank of Kellogg, Kellogg, Idaho	3	
Kalama State Bank, Kalama, Washington	2	
Cowlitz Valley Bank, Kelso, Washington	2	
Pullman State Bank, Pullman, Washington	2	
The Ritzville State Bank, Ritzville, Washington	1	31
Total		46

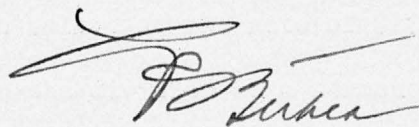
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<u>Application for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 12.</u>		
The Sebastopol National Bank,		
Sebastopol, California	15	15

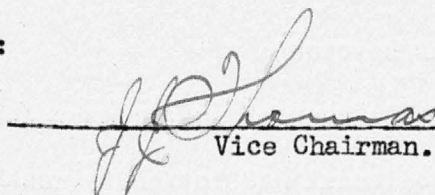
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:


Vice Chairman.